



USAID
FROM THE AMERICAN PEOPLE

AFGHANISTAN

Economic Growth

August 2006



PHOTO: USAID/AFGHANISTAN

Afghan women sift through grain at a local outdoor market. USAID provided more than 28,000 loans to small businesses in Afghanistan. Three-quarters went to women.

ECONOMIC GROWTH SNAPSHOT

- 110 provincial staff received training on administrative and fiscal responsibilities and 38 financial officers were hired.
- More than 45 training seminars administered for over 830 Ministry of Finance employees
- \$428.8 million generated in 2005 surpassing the IMF domestic revenue generation goal
- Reorganized five provincial deed offices and registered three million deeds.
- 35 provincial branches of the Da Afghanistan bank modernized, improving account management, communications, and automated payment.

BACKGROUND

Afghanistan ranks 173 out of 178 countries on the UNDP Human Development Index. Poverty is widespread and deeply entrenched after decades of war and under-investment. As many as 90 percent of the population is poor in some provinces. The average yearly income for Afghans is \$300 per person. Sustained economic growth is critical to address not only poverty but also security and reconstruction.

PROGRAM OVERVIEW

USAID's economic growth program assists the Government of Afghanistan to develop sound economic governance and work with the private sector to stimulate investment and business opportunities. The goal is for Afghans to generate, maintain and administer public finances in transparent and predictable ways. USAID aims to strengthen economic governance in the public sector, establishing an environment that enables the private sector to expand and produce jobs and income.

FISCAL REFORM

USAID is supporting the Ministry of Finance (MoF) to create effective administrative systems and taxation policies. These administrative reforms are necessary to generate revenue for the Government of Afghanistan helping the country move toward self reliance instead of dependence on foreign aid. USAID administered 45 different training seminars to 833 MoF staff and 110 provincial staff under the *Mustofiat*, title deeds and tax collection office program. Programs aim to reform provincial revenue offices and customs clearance procedures. As a result, six customs houses including the Sher Khan Bandar site have been completed and equipped. The development of a new customs code enabled operations to generate \$428.8 million from March 2005 to March 2006, helping surpass the International Monetary Fund's revenue generation goal for the country. Fiscal reforms aim to protect against misuse of funds and stem corruption.

CENTRAL BANK REFORM

USAID is supporting Da Afghanistan Bank (DAB) to build a sound financial system. Developing the licensing process and new Banking Law has allowed 13 private banks to be established, and promoted the restructuring and eventual privatization of three state owned banks. USAID assisted the bank to fulfill MoF requirements by consolidating government accounts across all DAB provincial branches. This was accomplished through regular transfers of government revenue to a single Treasury account. USAID assisted 35 DAB provincial branches modernize, automate payment, manage accounts, and develop communication systems to improve branch operations.

LAND TITLING

Property rights are a complex and challenging issue to address for all Afghans including the 3.5 million refugees who returned after decades of conflict. USAID is helping to resolve the matter of land rights to ensure



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Economic Growth (continued)



PHOTO: USAID/AFGHANISTAN

Farmers organize a cooperative and raise community awareness about innovations to boost crops yields and market supply. USAID improved approximately 150 storage and market centers in Afghanistan to sustain fresh produce for farmers.



PHOTO: IOM

Afghan men show their office designs.

clear transfer and documentation of ownership for Afghan citizens in informal settlements around Kabul. The program has completed aerial mapping for two pilot districts in Kabul and renovated and reorganized the land records in 16 registry offices throughout the country, representing 3.8 million, or 85% of all property records in Afghanistan.

PRIVATIZATION OF STATE-OWNED ENTERPRISES (SOE)

USAID supports privatization of state-owned companies to create a viable market economy. This includes a rapid transfer of state-owned assets to the private sector and the development of partnerships and practices that serve as the foundation for a transparent, market-based economy. Achievements include drafting changes to existing State Owned Enterprise laws approved by the Government of Afghanistan as well as the approval of liquidation and corporatization procedures by the State Owned Enterprise Evaluation Committee that will expedite the divestiture of enterprises from state ownership. Four SOEs have been privatized, including Baghlan Sugar in May 2005 which sold at a sale price of \$18.8 million. There are 16 SOEs slated to begin the restructuring, privatization or liquidation process in 2006.

STRENGTHENING BUSINESS ASSOCIATIONS

USAID is strengthening business association networks and was instrumental in supporting the newly formed Afghan International Chamber of Commerce (AICC), while promoting provincial and local business associations, and other civil society groups. These organizations foster discussions, investment, and economic development. The program has opened AICC branch offices in Kandahar, Mazar-e Sharif, Herat, and Jalalabad. Within three months AICC will have branches in Konduz, Bamiyan, and Khost. Support to the Afghan Women's Business Federation has consolidated 34 women-run business associations. Such associations provide training and business development services increasing opportunities and skills for women entrepreneurs.

DEVELOPING THE PRIVATE SECTOR

USAID is stimulating the economy by creating access to capital activity that will provide farmer credit, microfinance loans, small and medium enterprise (SME) loans, and establish an investment fund. A separate loan guarantee program, the First Loss Reserve Fund, offers participating banks a \$20,000 loan guarantee for each ex-combatant hired. The Afghanistan Renewal Fund, the first venture capital fund in Afghanistan, began operations in March 2006. This fund specifically targets small to medium-sized enterprises with \$500 to \$5 million investments. A new SME development activity will provide technical assistance in business plan development, market research analysis, and market entry for new businesses. Targeted assistance is being provided to help improve the competitiveness of carpets, marble, dried fruits, and nuts to help these emerging markets. These will be complemented by a significant access to capital program to provide entrepreneurs, farmers and women with capital for new and existing businesses of all sizes.